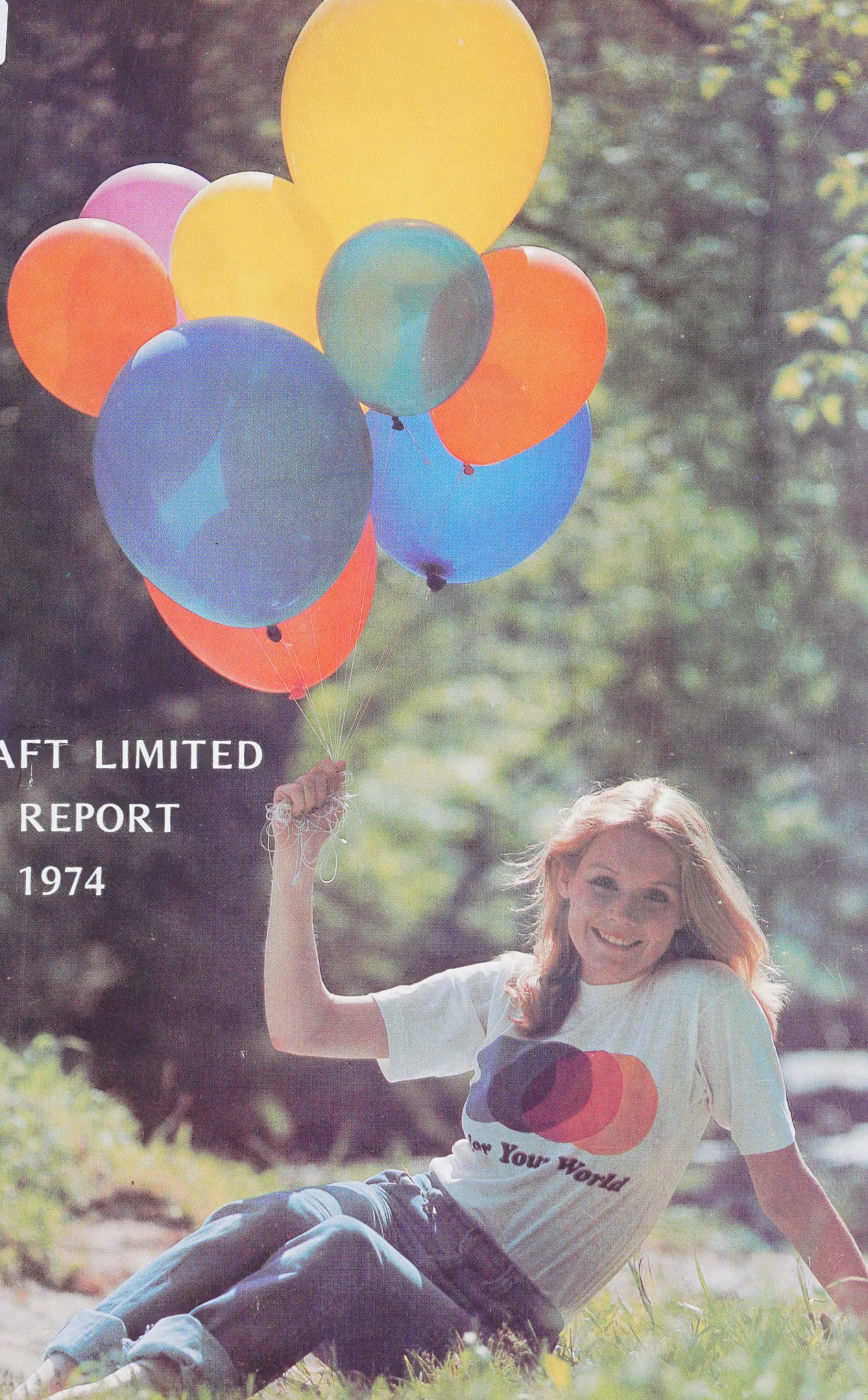
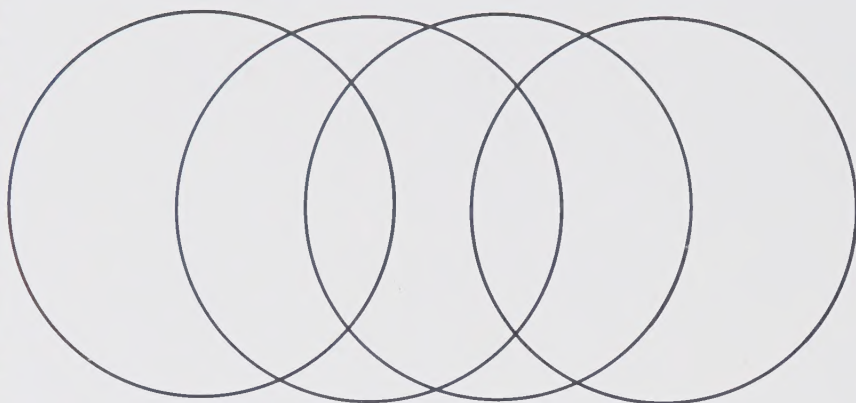


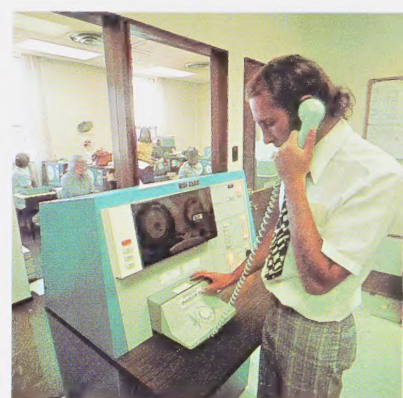
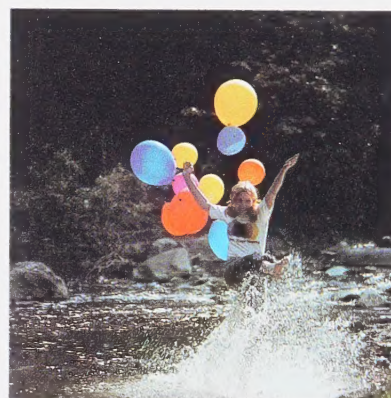
**TONECRAFT LIMITED**  
**ANNUAL REPORT**  
**1974**







# TO OUR SHAREHOLDERS



1974 has been a memorable year in the continued growth of your company.

New store openings increased our market penetration to 76 stores. This year we made nine additions: Richmond, Langley and Sidney, British Columbia; Edmonton, Alberta; Barrie, Brantford, Orangeville, Pembroke and St. Catharines, Ontario.

This year we can report a major manufacturing achievement with the successful launching of your company's own wall-paper manufacturing factory. This new



facility, located in Toronto, is now in production, and by the end of 1974 half of the first Color Your World wallpaper

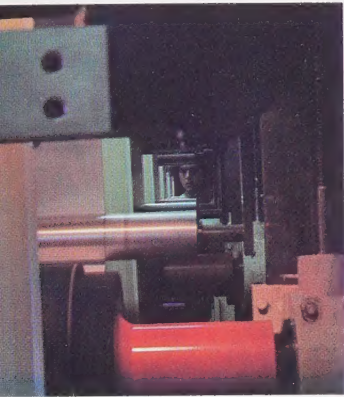


collection was on sale in our stores. We are pleased to record first class market acceptance of this excellent product.

Color Your World wallcoverings are pre-pasted, stain resistant, scrubbable and strippable. These are the most important competitive factors relating to application, maintenance and removability. Color Your World wallcoverings combine these features with fashionable design and color to make the product most attractive.

Progress is being made in expanding our

line of wallpaper products and throughout 1975 we anticipate deeper market penetration with an even broader line of competi-

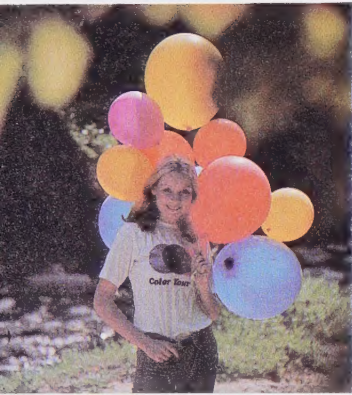


tively priced merchandise.

Expanded warehousing and shipping facilities were completed early in 1974 at Toronto, enabling us to give improved service to our dealers and company-owned stores. Many of our stores are now using an electronic recording and telephone transmission system for stock orders. This system has facilitated more precise inventory control and helped with the continual perfection of overall service at the retail level.



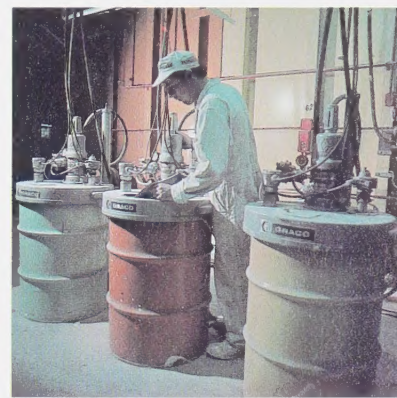
The people in our research and development department continue to play an essential part in the growth of your com-



pany. In 1974 the results of some of their work came to fruition in the pre-paste and coatings developed for our wallpaper products and in a number of specialty paint items, such as Color Your World's own Antiquing system. The Toronto based research and development lab is responsible for continuing quality control as well as the perfection of new product lines.

The foregoing success has been achieved in the face of serious economic conditions which prevailed throughout 1974. Of par-

ticular concern during the year was material shortages relating to paint products, extensive cost escalation in raw materials and

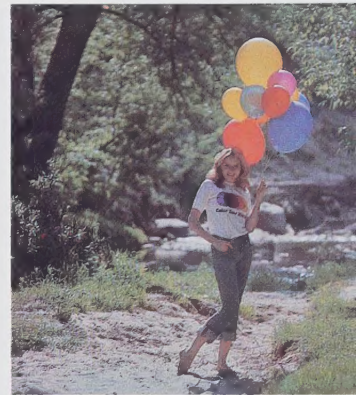


resale merchandise. All this was in addition to the continuing concern of escalating operating expenses overall. We are anticipating minor cost escalation during 1975, but we do not expect any significant material shortages.

Our merchandising efforts remain centralized around the Color Your World, "do-it-yourself" home decorator image. Quality products which complement this image are continually sought after and test marketed. This enables us to bring the



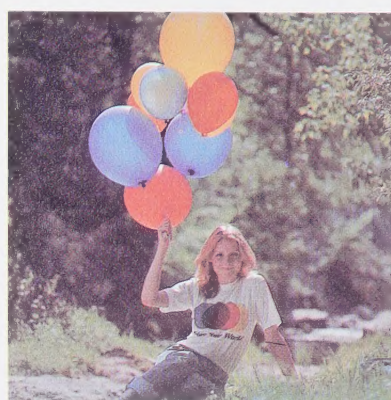
public *only* “best-buy” products, combined with top quality and reasonable price.



Our plans for 1975 include completion of the construction and further mechanization of our paint manufacturing and packaging systems to give us improved productivity. We also plan to open ten or more store locations, including our first store in the province of Saskatchewan. As an ongoing concern, we will continue to project the Color Your World image through extensive advertising, efficiently backed up by quality products at the right price.



We are pleased to record the success of our Associate Dealership program and express our appreciation to the Associates



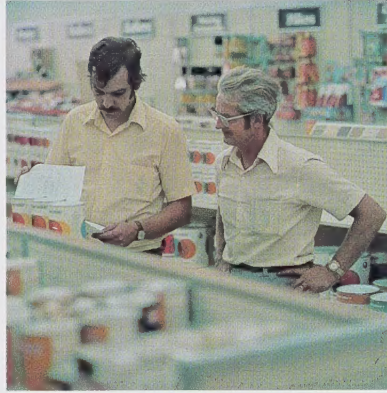
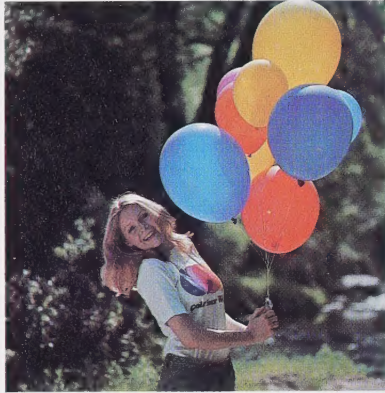
themselves for their continued co-operation and confidence in your company.

We express similar gratitude to our employees for their much appreciated efforts.

Finally, your directors take pleasure in reporting a sales increase of 18.7 percent from \$14,497,000 in 1973 to \$17,202,000 in 1974. Net income after taxes was \$1,004,000 for 1974 compared with \$858,000 for 1973, an increase of 17 percent.



While prospects for 1975 appear somewhat depressed in the first half year, especially in lower wholesale trade sales



which reflect the drop in housing starts, your directors are confident that retail sales will offset this slow start. By the third quarter of 1975, it is expected that our growth pattern will return to normal.

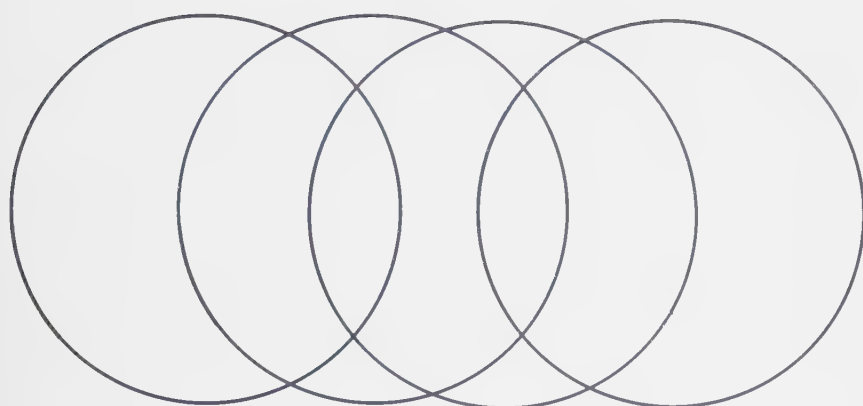
*B. F. Strongman*

B. F. Strongman, Director

*W. M. Strongman*

W. M. Strongman, Director





## Tonecraft Limited and Subsidiary Companies

Financial Highlights	Thousands of dollars							
	1974	1973	1972	1971	1970	1969	1968	1967
Sales	\$17,202	\$14,497	\$12,364	\$11,391	\$10,317	\$9,513	\$7,495	\$6,267
Net earnings before taxes	2,003	1,654	1,286	1,122	892	1,056	889	744
Net earnings after taxes	1,004	858	660	562	429	503	435	365
Earnings per common share *	0.71	0.61	0.47	0.40	0.31	0.37	0.35	0.30
Dividends per common share *	0.08	0.08	0.08	0.067	0.067	0.067	0.067	0.067
Working capital <sub>4</sub>	583	834	1,671	1,581	1,192	1,555	698	1,200
Depreciation	473	479	395	317	226	110	72	57
Total assets	17,984	12,950	9,615	9,292	8,364	6,828	4,932	3,039
Shareholders equity	5,905	5,014**	4,557	4,001**	4,208	3,453	2,743	2,095
Number of common shares outstanding, year end	1,415,200	1,415,200	1,415,200	471,731	466,004	446,264	412,814	399,114

\*\* After intangible asset write-off (See Consolidated Statement of Retained Earnings)

\* Adjusted to show comparison per share after 3 for 1 stock split. (September 1972)

<sub>4</sub>See Note 4 to Consolidated Financial Statements.



**Tonecraft Limited**  
 Incorporated under the laws of Ontario  
**and Subsidiary Companies**

**Consolidated Statement of Earnings**

Year ended December 31, 1974 (with comparative figures for 1973)

	Thousands of dollars	
	1974	1973
Sales	\$17,202	\$14,497
Cost of goods sold	11,388	8,941
Gross profit	5,814	5,556
Operating expenses other than interest on non-current liabilities	3,332	3,726
Interest on non-current liabilities	487	243
	3,819	3,969
Profit on sale of land and buildings	1,995 8	1,587 67
Income before income taxes	<u>2,003</u>	<u>1,654</u>
Income taxes current	639	671
deferred	360	125
Net income for the year (Note 2)	999 \$1,004	796 \$ 858
Earnings per common share (dollars) (Note 2)	\$ .71	\$ .61

**Consolidated Statement of Retained Earnings**

Year ended December 31, 1974 (with comparative figures for 1973)

	1974	1973
Balance at beginning of year	3,738	3,281
Net income for the year	1,004	858
	4,742	4,139
Deduct		
Dividends on common shares	113	113
Excess of cost of shares of subsidiaries over book value at dates of acquisition	—	288
	113	401
Balance at end of year	\$4,269	\$3,738



# Consolidated Statement of Financial Position December 31, 1974

(with comparative figures at December 31, 1973)

		Thousands of dollars	
		1974	1973
Current assets			
	Cash	\$ 9	\$ 10
	Accounts receivable	2, 177	2, 123
	Inventories (note 3)	5, 262	3, 277
	Prepaid expenses	171	117
	Total current assets	7, 619	5, 527
Current liabilities			
	Bank advances, against which book debts have been pledged	4, 520	1, 932
	Accounts payable and accrued liabilities	1, 298	1, 221
	Deferred revenue	71	95
	Income and other taxes payable	180	180
	Principal due within one year on non-current liabilities	967	1, 265
	Total current liabilities	7, 036	4, 693
Working capital (net current assets) (note 4)		583	834
Other assets			
	Land, buildings and equipment at cost (note 5)	12, 446	9, 008
	Less accumulated depreciation	2, 104	1, 763
		10, 342	7, 245
	Deferred expenses less amortization	23	178
		10, 365	7, 423
	Excess of assets over current liabilities	10, 948	8, 257
Non-current liabilities (note 6)			
		4, 448	3, 008
	Deferred income taxes	595	235
		5, 043	3, 243
	Excess of assets over liabilities	5, 905	5, 014
Shareholders' equity			
	Capital stock		
	Authorized:		
	1,615,588 common shares without par value		
	Issued:		
	1, 415,200 common shares	1, 276	1, 276
	Retained earnings	4, 629	3, 738
		\$ 5, 905	\$ 5, 014

Fixed asset and long term lease commitments (notes 7 and 8).

The attached notes form an integral part of these statements.

Approved by the Board

B. F. Strongman, Director

W. M. Strongman, Director



# Tonecraft Limited and Subsidiary Companies

## Consolidated Statement of Changes in Financial Position

Year ended December 31, 1974 (with comparative figures for 1973)

		Thousands of dollars	
		1974	1973
Working capital derived from	Operations	1, 829	1, 395
	Term bank loans	500	1, 450
	Mortgage proceeds	1, 213	21
	Loans payable to directors	250	—
	Other non-current liabilities (including \$102,053 assumed on acquisition of subsidiaries)	—	302
	Proceeds from sale of land, buildings and equipment	104	217
		3, 896	3, 385
Working capital applied to	Additions to land, buildings and equipment (including \$158,457 in 1973 on acquisition of subsidiaries)	3, 529	2, 416
	Deferred expenses (recovery)	(18)	189
	Dividends	113	113
	Reduction of non-current portion of liabilities	523	1, 216
	Excess of cost of shares of subsidiaries over book value at date of acquisition	—	288
		4, 147	4, 222
Working capital	Decrease in working capital	251	837
	Beginning of year	834	1, 671
	End of year (note 4)	\$ 583	\$ 834

# Tonecraft Limited and Subsidiary Companies

## Notes to the Consolidated Financial Statements

Year ended December 31, 1974

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### 1. Summary of Accounting Policies

The principal accounting policies followed by Tonecraft Limited and subsidiary companies are set out below. These policies are in accordance with generally accepted accounting principles and have been consistently applied except for the changes noted below.

#### (a) Principles of consolidation

The consolidated financial statements include the accounts of all subsidiary companies of which Tonecraft (B.C.) Limited is the principal operating subsidiary. The excess of cost of shares over book value at dates of acquisitions of subsidiary companies acquired in prior years has been written off to retained earnings. The results of their operations have been included in the consolidated statements of earnings from their dates of acquisition.

#### (b) Inventories

Raw materials and resale merchandise are valued at the lower of cost and replacement cost. Tonecraft manufactured products are valued at the lower of cost and net realizable value. Cost has been determined on a first-in, first-out basis.

#### (c) Deferred revenue

Deferred revenue represents prepaid associate dealer administration fees and initial association fees collected from associate dealers. The association fees are taken into earnings over a twenty-four month period.

#### (d) Depreciation

Prior to 1974, depreciation was calculated on a diminishing balance basis. Effective January 1, 1974, depreciation has been calculated on a straight line basis.

The straight line rates adopted are substantially based on the following estimated useful lives:

Buildings	40 years
Equipment other than undernoted	15 years
Data processing equipment	10 years
Rotogravure cylinders	3 years
Leasehold improvements	the lease term

#### (e) Deferred expenses

Commencing in 1974, costs incurred related to the extension of the "Color Your World" marketing concept, wallpaper display, pre-opening of new stores and establishing Associate Dealerships have been written off to earnings as incurred. In addition, all expenses related to the development of the company's own manufactured wallpaper (e.g. consulting services, hiring and training of factory personnel and trial production runs) have been absorbed in the current year's expense. In prior years, expenses of this nature were amortized over varying periods not exceeding thirty-six months.

#### (f) Deferred income taxes

The companies reflect in earnings income taxes currently payable and income taxes deferred which result from claiming for tax purposes deferred expenses and depreciation in amounts which exceed that recorded in the accounts.

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# Tonecraft Limited and Subsidiary Companies

## Notes to the Consolidated Financial Statements (continued)

Year ended December 31, 1974

2. Changes in Accounting Policies	Depreciation has been changed to a straight-line basis of calculation in 1974 (note 1(d)) and certain deferred expenses are now written off in the year incurred (note 1 (e)). As a result of these changes depreciation for the year has been reduced by \$265,000, expenses for the year have been increased by \$245,000, and net income for the year has not increased materially.
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3. Inventories	Thousands of dollars	
	1974	1973
Raw materials	\$1,237	\$ 604
Tonecraft manufactured products	2,761	1,802
Resale merchandise	1,264	871
	<u>\$5,262</u>	<u>\$3,277</u>

4. Working Capital	In view of the level of long-term lending rates prevalent in 1974, the company has refrained from mortgage financing. The company expects these rates to moderate and accordingly intends to raise long-term financing of at least \$1,000,000 in 1975.
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5. Land, Buildings and Equipment	Thousands of dollars			
	1974		1973	
	Cost	Accumulated depreciation	Net	Net
Land	\$3,053	\$	\$3,053	\$2,523
Buildings	4,986	594	4,392	2,963
Equipment	3,713	1,390	2,323	962
Leasehold improvements	202	120	82	66
Facilities under construction	492		492	731
	<u>\$12,446</u>	<u>\$2,104</u>	<u>\$10,342</u>	<u>\$7,245</u>

6. Non-current Liabilities	Thousands of dollars	
	1974	1973
Term bank loans* (at a rate which is fixed in relation to bank prime)	\$2,947	\$2,480
7¾ to 12¾% Mortgages payable (a weighted average of 9¾%)	1,982	1,419
Loans payable to directors at 11%	250	
Notes payable at ¾% over bank prime	133	200
Other loans payable	103	174
	<u>5,415</u>	<u>4,273</u>
Less principal included in current liabilities	967	1,265
	<u>\$4,448</u>	<u>\$3,008</u>

# Tonecraft Limited and Subsidiary Companies

## Notes to the Consolidated Financial Statements (continued)

Year ended December 31, 1974

### 6. Non-current Liabilities (continued) Principal due within the next five years is as follows:

1975	\$967,000
1976	660,000
1977	576,000
1978	715,000
1979	712,000

\*The term bank loans are demand loans, repayable on specific terms up to 1980.

### 7. Fixed Asset Commitments

The companies are committed to a further investment in plant and store facilities of \$809,000 at December 31, 1974. Mortgage financing of \$90,000 has been arranged to partially finance this investment and the company intends to arrange further long-term financing for the balance.

### 8. Long-Term Leases

The companies have commitments under leases with an initial term greater than five years covering retail store locations, certain of which are subleased to associate dealers. The aggregate minimum rentals exclusive of occupancy costs under leases with an initial term greater than five years are as follows for each of the periods shown:

For the year:

1975	\$267,000
1976	207,000
1977	182,000
1978	134,000
1979	96,000

For the five years ending:

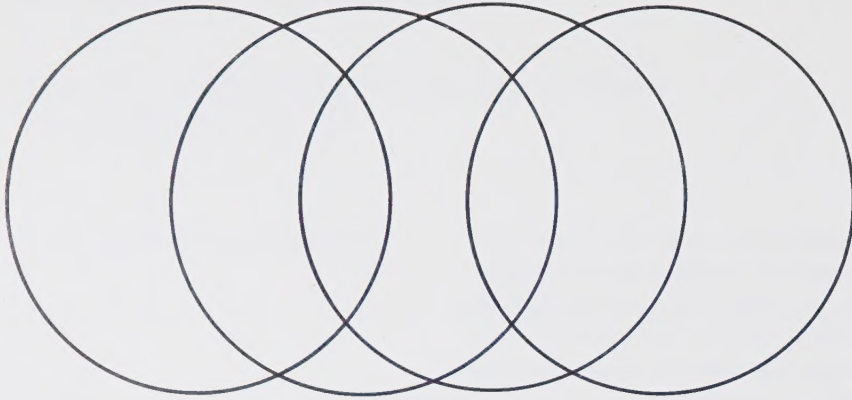
1984	394,000
1989	339,000
1994	140,000
1999	54,000

\$1,813,000

### 9. Other Statutory Information

	1974	1973
Depreciation (note 1 (d))	\$358,000	\$383,000
Amortization (note 1 (e))	115,000	96,000
Remuneration of directors and senior officers	263,000	226,000





## Auditors' Report

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To the  
Shareholders of  
Tonecraft Limited

We have examined the consolidated statement of financial position of Tonecraft Limited and subsidiary companies as at December 31, 1974 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1974 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles which, except for the changes referred to in note 2, have been applied on a basis consistent with that of the preceding year.

Thorne Gunn & Co.  
Chartered Accountants

Toronto, Canada, February 27, 1975

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# Tonecraft Limited and Subsidiary Companies

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## Board of Directors

D. R. Strongman  
W. M. Strongman  
B. F. Strongman  
J. F. McCallum  
W. G. Reid  
P. D. Wendling  
W. G. Strongman

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## Officers

D. R. Strongman, Chairman of the Board  
W. M. Strongman, President  
B. F. Strongman, Executive Vice-President and Secretary-Treasurer  
W. G. Strongman, Vice-President  
J. L. Bennett, Vice-President — Manufacturing  
W. Kenwright, Vice-President — Corporate Development  
J. E. Pinington, Vice-President — Finance

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## Transfer Agent and Registrar

Montreal Trust Company

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## Auditors

Thorne Gunn & Co.

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## Solicitors

Harries, Houser, Brown & McCallum

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## Bankers

Canadian Imperial Bank of Commerce

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## Listing

Toronto Stock Exchange

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